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10 key investment strategy stories of 2024
By Rob Burgess
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The investment outlook for 2025 changed rapidly during a few weeks in the latter part of 2024.

First, in September, the Federal Reserve announced the start of its long-awaited interest rate cuts. The initial half-point drop was the first in a series of Fed decisions as it attempted to achieve a so-called "soft landing" for the economy.

Then, on Election Day in November, Donald Trump won a decisive victory over Democratic candidate Vice President Kamala Harris and will retake the White House next month. His Republican Party then proceeded to retake the U.S. Senate and eventually did the same in the U.S. House of Representatives. The Republican sweep of the levers of power was complete.

The effects of these changes on portfolios will be felt for years. For starters, the 2017 Tax Cuts and Job Act (TCJA) will almost certainly be extended beyond 2025.

In addition, sectors seen as benefiting from the expected de-emphasis on regulation and governmental scrutiny are looking to benefit in the coming year. This was seen in the immediate aftermath of the election results, which was dubbed the "Trump trade" at the time. Meanwhile, areas that are particularly sensitive to tariffs are expected to have a more difficult time under the new administration.

On its face, the ascendancy of a GOP government takeover in Washington would seem to be a net negative for sustainable investments and environmental, social, and governance (ESG) initiatives. But the regulatory and legislative changes that have locked into place over the past few years have created a favorable environment for these investments that will be hard to uproot — however much a newly reinvigorated Republican Party might push for the opposite.

Small- and mid-cap funds have been given a boost by these pieces of news, after years of trailing large-cap counterparts. Some larger players may be overdue for a correction, while smaller entrants may benefit from increased mergers and acquisitions activity.

The profile of cash in portfolios received renewed attention in 2024, as solutions came online that allowed higher returns than previously attainable. This was especially true as investors waited for the Fed's interest rate decision.

The Fed's change of course also meant yields on money market funds are shrinking. Short-term bonds suddenly became more attractive to investors.

Alternative investments also gained increased prominence by 2024. Barriers to entry that previously allowed only high net worth and ultrahigh net worth investors to take advantage of opportunities began to drop. Fractional ownership of alternative assets and newer platforms gave investors with fewer resources a seat at the table as well. Others remain skeptical about these alternatives to a traditional portfolio and the promises of their ability to outperform expectations.

Scroll down for a roundup of some of FP's biggest investment strategy stories this year:

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Cash can increasingly provide healthy returns
As investors and financial advisors waited on the Fed to slash interest rates, experts said cash assets were an attractive and often under-discussed opportunity.

Rising interest rates pushed the average yield on money markets and other cash-equivalent funds above 5.1%, according to research firm Crane Data, the publisher of the "Money Fund Intelligence" report. Those returns were much higher than the infinitesimal gains for clients in so-called sweep accounts that automatically generate big profits for many large wealth management firms on customer cash holdings, as well as the paltry yields on trillions of dollars in savings and checking accounts at the massive giants of the banking world.

READ MORE: Why cash is still king — even with Fed cuts looming

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Alternative investments under the microscope
Skepticism is growing about the ability of private markets to consistently outperform more conservative portfolios made up of stocks and bonds.

No matter, say advocates of private credit, private equity, private real estate and other alternatives to publicly traded investments. Even if private vehicles don't always generate greater returns — especially once fees and other costs are taken into account — they do have one benefit: They help shield investors from the sometimes sweeping fluctuations known to hit public markets.

In other words, they offer diversification.

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Fed finally began lowering interest rates
After the Federal Reserve lowered interest rates by half a percentage point in

September, many unanswered questions remained.

Financial advisors and industry experts weighed in on what those answers might be and what's ahead.

READ MORE: As Fed announces half-point rate drop, advisors change investment strategies

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Single-stock ETFs proliferate but carry risks
They're a relatively new concept, but interest in single-stock exchange-traded funds has picked up over the past two years or so.

However, experts warn that these vehicles carry inherent risks for investors.

Unlike typical ETFs, they concentrate on just one security. Among the first companies featured by AXS were Tesla, Nvidia and PayPal.

There are now dozens of single-stock ETFs available.

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Focusing on how advisors should position alternatives
The alternative investment platform CAIS announced the launch of a registered investment advisory division, CAIS Advisors, at its third annual summit in October in Beverly Hills, California. Along with advisory services, the unit will provide financial advisors with customizable model portfolios and multi-manager registered solutions.

Those services may make it easier for financial advisors to diversify client portfolios with alternative investments. But just getting clients interested in the assets, which are often seen as a harder sell due to factors like illiquidity and risk, can be a challenge for advisors. Here's what experts recommend.

READ MORE: How to get clients comfortable with alternative investments

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What Trump's reelection means for client portfolios
With the November election delivering a victory for the GOP, investment strategies must be carefully reviewed to maximize potential gains under the incoming administration's economic policies, said Jon McCardle, president of Summit Financial Group of Indiana. Historically, a pro-business Republican government often seeks deregulation, which can positively impact various sectors, particularly those sensitive to regulatory shifts.

In the lead-up to the election, wealthy investors were concerned about whether the 2017 Tax Cuts and Job Act (TCJA) would be extended after 2025 or if the currently higher tax brackets and double estate tax exemption amount would revert back to their pre-TCJA rates, said David Flores Wilson, the managing partner of Sincerus Advisory. Those issues are less of a concern now, as a "red wave" likely means the TCJA will be extended in some form, and tax rates could go lower.

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The lingering effects of Election Day
Early November saw two monumental shifts that will have lasting effects on the markets for quite some time.

One was something of a shock, at least at how decisive it was, and the other was widely expected.

On Election Day, voters decided to send Republican President-elect Donald Trump back to the White House and put his party back in control of the U.S. Senate.

Days later, Federal Reserve Chair Jerome Powell announced yet another drop in interest rates, the second drop by the Fed after its half-point interest rate decrease in September.

How the former will affect the latter, and how both will change client portfolios going forward have been on the minds of advisors. Here's what advisors and other experts had to say.

READ MORE: What Trump's reelection means for portfolios, Fed rate cuts

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Foreseeing a brighter future for small caps
The news that Republican Donald Trump had been reelected had an immediate positive effect on the stock market, especially small-cap stocks.

On Nov. 6, the day after Election Day, the Russell 2000 Index rose 5.8% while the large-cap Russell 1000 Index and the mega-cap Russell Top 50 Index were each up 2.7%. According to an analysis by Francis Gannon, co-chief investment officer of Royce Investment Partners in New York City, these were the 27th highest daily returns since the small-cap index's inception on New Year's Eve 1978.

Small-caps can offer significant growth potential, especially when markets are

expected to grow.

READ MORE: What do Trump's reelection, Fed rate cuts mean for small-caps?

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ESG may not be so easy to uproot for a new GOP government
The reelection of Donald Trump to the presidency and Republican majorities in Congress will certainly have wide-ranging effects on the future of sustainable investing.

While the newly emboldened GOP may have grand designs for enacting rules and legislation to hamper these efforts, the gains of the past few years may be more difficult to undo than first appears.

That was the topic of a recent US Sustainable Investment Forum webinar, which explored the possible outcomes for the field in the aftermath of Election Day.

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Short-term bonds benefit from Fed decision
The Federal Reserve is now a few months into its long-awaited string of interest rate cuts.

And while that may be welcome to some, yields on money market funds are shrinking.

Kerry Rapanot, director and low-duration portfolio strategist at Payden & Rygel, said short-term bonds may be ideal for those who are looking for conservative alternatives to money market funds.

READ MORE: Short-term bonds on the rise as interest rates decline

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